DEJOUR ENTERPRISES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Dejour Enterprises Ltd.

We have audited the consolidated balance sheets of Dejour Enterprises Ltd. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years ended December 31, 2006, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years ended December 31, 2006, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

"DMCL"

CHARTERED ACCOUNTANTS

Vancouver, Canada
April 2, 2007

DEJOUR ENTERPRISES LTD.
CONSOLIDATED BALANCE SHEETS

(In Canadian $)	December 31, 2006	December 31, 2005
ASSETS		
Current		
Cash and cash equivalents	$ 17,660,163	$ 12,387,314
Marketable securities (Note 5)	306,271	-
Prepaids and other	185,862	92,242
	18,152,296	12,479,556
Investment in Titan (Note 3)	36,538,953	-
Equipment (Note 4)	106,953	111,643
Resource properties (Note 5)	25,879,526	3,425,154
	$ 80,677,728	$ 16,016,353
LIABILITIES		
Current		
Accounts payable and accrued liabilities	556,137	$ 312,222
Promissory note (Note 6)	5,827,000	-
	6,383,137	312,222
Long term liabilities		
Convertible debentures (Note 6)	1,343,978	-
Future income tax liabilities (Note 11)	1,508,234	-
	2,852,212	-
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	48,671,383	18,190,174
Contributed surplus (Note 10)	1,648,398	279,085
Retained earnings (deficit)	21,122,598	(2,765,128)
	71,442,379	15,704,131
	$ 80,677,728	$ 16,016,353

Approved on behalf of the Board

“Robert Hodgkinson”
Robert Hodgkinson – Director

“Douglas Cannaday”
Douglas Cannaday – Director

The accompanying notes are an integral part of these consolidated financial statements

DEJOUR ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(In Canadian $)	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
EXPENSES			
Amortization	$ 29,726	$ 14,713	$ -
Interest expense and finance fee	107,031	1,589	52,087
Investor relations	1,079,161	626,686	12,753
Fees for management and consultants	826,712	454,410	67,434
Stock-based compensation for management and consultants (Note 9)	1,295,127	308,434	6,131
Office and general	224,475	159,799	25,769
Professional fees	44,023	34,636	53,942
Property investigation costs	117,192	91,834	10,430
Regulatory and filing fees	92,713	150,474	30,991
Rent	175,655	126,718	13,081
Travel and accommodation	141,724	61,350	17,465
	4,133,539	2,030,643	290,083
LOSS BEFORE THE FOLLOWING AND INCOME TAXES	(4,133,539)	(2,030,643)	(290,083)
Finder's fee (Note 5)	306,271	-	-
Interest income	673,559	99,530	-
Gain on disposition of uranium properties (Note 5)	30,177,082	-	-
Equity loss from Titan (Note 3)	(19,031)	-	-
Foreign exchange gain (loss)	(66,616)	(46,941)	-
Impairment of oil and gas properties (Note 5)	(2,596,074)	-	(102,016)
INCOME (LOSS) BEFORE INCOME TAXES	24,341,652	(1,978,054)	(392,099)
FUTURE INCOME TAX (EXPENSES) RECOVERY (Notes 8 and 11)	(453,926)	366,135	-
NET INCOME (LOSS) FOR THE YEAR	23,887,726	(1,611,919)	(392,099)
DEFICIT, BEGINNING OF YEAR	(2,765,128)	(1,153,209)	(761,110)
RETAINED EARNINGS (DEFICIT), END OF YEAR	$ 21,122,598	$ (2,765,128)	$ (1,153,209)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - basic	52,564,033	25,611,539	9,856,071
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - diluted	56,557,807	25,611,539	9,856,071
BASIC EARNINGS (LOSS) PER SHARE	$ 0.45	$ (0.06)	$ (0.04)
DILUTED EARNINGS (LOSS) PER SHARE	$ 0.42	$ (0.06)	$ (0.04)

The accompanying notes are an integral part of these consolidated financial statements

DEJOUR ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Canadian $)	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) for the year	$ 23,887,726	$ (1,611,919)	$ (392,099)
Adjustment for items not affecting cash			
Amortization	29,726	14,713	-
Equity loss from Titan	19,031	-	-
Non-cash finder's fee income	(306,271)	-	50,000
Non-cash stock-based compensation	1,295,127	308,434	6,131
Non-cash consulting fees and other expenses	282,075	9,200	-
Impairment of oil and gas properties	2,596,074	-	102,016
Future income tax expenses (recovery)	453,926	(366,135)	-
Gain on disposal of uranium properties	(30,177,082)	-	-
	(1,919,668)	(1,645,707)	(233,952)
Changes in non-cash working capital balances	150,295	206,881	2,145
	(1,769,373)	(1,438,826)	(231,807)
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures related to the acquisition of Titan shares	(107,983)	-	-
Purchase of equipment	(25,036)	(126,356)	-
Resource properties expenditures	(12,013,765)	(3,425,152)	(102,017)
	(12,146,784)	(3,551,508)	(102,017)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common shares for cash	19,189,006	15,784,810	1,796,760
	19,189,006	15,784,810	1,796,760
INCREASE IN CASH AND CASH EQUIVALENTS	5,272,849	10,794,476	1,462,936
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,387,314	1,592,838	129,902
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 17,660,163	$ 12,387,314	$ 1,592,838

Supplementary Cash Flow Information – See Note 12

The accompanying notes are an integral part of these consolidated financial statements

NOTE 1- NATURE OF OPERATIONS AND BASIS OF PRESENTATION

During 2004, Dejour Enterprises Ltd. (the "Company" or "Dejour") was reactivated to Tier 2 Issuer status on the TSX Venture Exchange ("TSX-V") and is currently exploring and developing early stage energy projects with a focus on uranium and oil and gas.

Since its reactivation, the Company acquired interests in and staked uranium exploration properties in the Athabasca Basin region of Saskatchewan and acquired the rights to participate in oil and gas exploration joint ventures.

During 2006, the Company acquired interest in an oil and gas exploration joint venture known as the Retamco project in Piceance and Uinta Basins in the States of Colorado and Utah, USA.

In December 2006, the Company closed the disposition of its uranium properties to Titan Uranium Inc. ("Titan") for 36.5% of Titan's issued shares and three million share purchase warrants. The Company retained a 10% carried working interest and a 1% net smelter royalty in the properties. See Note 3.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Except as indicated in Note 15, they also comply, in all material respects, with United States generally accepted accounting principles. All amounts in these financial statements are expressed in Canadian dollars.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its inactive wholly-owned subsidiary, Dejour Energy (USA) Corp., incorporated in Nevada, and its 90% owned joint venture subsidiary Dejour Energy (Alberta) Ltd. incorporated in April 2006 which has been accounted for using the proportionate consolidation method. All intercompany transactions are eliminated upon consolidation.

Marketable Securities
Marketable securities are carried at the lower of cost or market value. Market value is based on the closing price at the balance sheet date or the closing price on the last day the security traded if there were no trades at the balance sheet date.

Resource Properties

Mineral properties:
The Company records its interests in mineral properties at the lower of cost or estimated recoverable value. Where specific exploration programs are planned and budgeted by management, the cost of mineral properties and related exploration expenditures are capitalized until the properties are placed into commercial production, sold, abandoned or determined by management to be impaired in value. These costs will be amortized over the estimated useful lives of the properties following the commencement of production or written off if the properties are sold or abandoned.

The costs include the cash or other consideration and the assigned value of shares issued, if any, on the acquisition of mineral properties. Costs related to properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. For properties held jointly with other parties the Company only records its proportionate share of acquisition and exploration costs. The proceeds from options granted are deducted from the cost of the related property and any excess is deducted from other remaining capitalized property costs. The Company does not accrue estimated future costs of maintaining its mineral properties in good standing. To date the Company has not recorded any asset retirement obligations for its mineral properties as no amounts are presently determinable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Resource Properties (con't)

Capitalized costs as reported on the balance sheet represent costs incurred to date and may not reflect recoverable value. Recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the mineral interests.

Management evaluates each mineral interest on a reporting period basis or as events and changes in circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether costs are capitalized or charged to operations. Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

General exploration costs not related to specific properties and general administrative expenses are charged to operations in the year in which they are incurred.

The Company does not have any producing mineral properties and all of its efforts to date have been exploratory in nature.

Oil and gas properties:

The Company follows the full cost method of accounting for its oil and gas operations whereby all costs related to the acquisition of petroleum and natural gas interests are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, interest costs, costs of drilling and equipping productive and non-productive wells, and direct exploration salaries and related benefits. Proceeds from the disposal of oil and gas interests are recorded as a reduction of the related expenditures without recognition of a gain or loss unless the disposal would result in a change of 20 percent or more in the depletion rate.

Depletion and depreciation of the capitalized costs will be computed using the unit-of-production method based on the estimated proven reserves of oil and gas determined by independent consultants.

Estimated future removal and site restoration costs are provided over the life of proven reserves on a unit-of-production basis. Costs, which include the cost of production, equipment removal and environmental clean-up, are estimated each period by management based on current regulations, costs, technology and industry standards. The charge is included in the provision for depletion and depreciation and the actual restoration expenditures are charged to the accumulated provision accounts as incurred.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves at year end market prices less future production, administrative, financing, site restoration, and income tax costs plus the lower of cost or estimated net realizable value of unproved properties.

Equipment

Equipment is recorded at cost with amortization being provided using the declining balance basis at the following rates:

Office furniture and equipment	20%
Computer equipment	30%
Software	100%

The carrying values of all categories of equipment are reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value is based on estimates of undiscounted and discounted future net cash flows expected to be recovered from specific assets or groups through use or future disposition.

Investments

The Company accounts for its investments in other companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize the Company's share of earnings or losses of the investee company and reduced by dividends received. Carrying values of equity investments are reduced to estimated market values if there is other than a temporary decline in the value of the investment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Earnings (Loss) per Share

The Company uses the treasury stock method for the computation and disclosure of earnings (loss) per share. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments which assume that proceeds received from in-the-money warrants and stock options are used to repurchase common shares at the prevailing market rate.

Basic earnings (loss) per share figures have been calculated using the weighted monthly average number of shares outstanding during the respective periods. Diluted earnings per share for 2006 has been presented based on weighted average fully diluted shares outstanding of 56,557,807. Diluted loss per share figures is equal to those of basic loss per share for 2004 and 2005 since the effects of options and warrants have been excluded as they are anti-dilutive.

Foreign Currency Translation

The financial statements are presented in Canadian dollars. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Non-monetary items are translated at historical exchange rates, except for items carried at market value, which are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the year.

The Company's US subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in loss for the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The significant areas requiring management's estimates relate to the recoverability of the carrying value of the Company's resource properties, future income tax effects and the determination of fair value of stock-based compensation.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts payable and accrued liabilities, promissory notes and convertible debentures. Management has determined that the fair value of these financial instruments approximates their carrying values due to their immediate or short-term maturity, except for fair value of debt and equity components of convertible debentures and promissory notes which are as disclosed in Note 6. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Net smelter royalties and related rights to earn or relinquish interests in mineral properties constitute derivative instruments. No value or discounts have been assigned to such instruments as there is no reliable basis to determine fair value until properties are in development or production and reserves have been determined.

Future Income Taxes

Future income taxes are recognized for the future income tax consequences attributable to differences between financial statement carrying values and their corresponding tax values (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in years in which temporary differences are expected to be recovered or settled. The effect on futures income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that, in the opinion of management, is more likely than not to be realized.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Stock-Based Compensation

The Company follows the recommendations of the CICA Handbook in accounting for stock-based compensation. The Company adopted the fair value method for all stock-based compensation to employees and consultants. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. The Company has adopted the fair value based method for options granted or altered to non-employees and employees in fiscal years commencing on or after January 1, 2002. The fair value of options and other stock based awards to employees or consultants, issued or altered in the period, are determined using the Black-Scholes option pricing model.

The Company has granted stock options to directors and employees as described in Note 9.

Asset retirement obligations

The Company reviews and recognizes legal obligations associated with the retirement of tangible long-lived assets, including rights to explore or exploit natural resources. When such obligations are identified and measurable, the estimated fair values of the obligations are recognized on a systematic basis over the remaining period until the obligations are expected to be settled.

Mineral property related retirement obligations are capitalized as part of deferred exploration and development costs and are accounted for in the same manner as all other capitalized costs.

Flow-Through Shares

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration expenditures. The Company renounces the qualifying expenditures upon the issuance of the respective flow-through common shares and accordingly is not entitled to the related taxable income deductions from such expenditures.

The Company has adopted the recommendation by the Emerging Issues Committee ("EIC") of the CICA relating to the recording of flow-through shares. EIC 146 stipulates that future income tax liabilities resulting from the renunciation of qualified resource expenditures by the Company from the issuance of flow-through shares are recorded as a reduction of share capital. Any corresponding realization of future income tax benefits resulting in the utilization of prior year losses available to the Company not previously recorded, whereby the Company did not previously meet the criteria for recognition, are reflected as part of the Company's operating results in the period the expenses are renounced to the share subscribers and applicable tax filing have been made with the Canada Revenue Agency..

Risk Management

The Company is engaged primarily in mineral and oil and gas exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations. The Company is not exposed to significant credit concentration or interest rate risk.

The Company's functional currency is the Canadian dollar. The Company operates in foreign jurisdictions, giving rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Impairment of long-lived assets

The CICA has issued CICA Handbook, section 3063, *Impairment of long-lived assets* which provides guidance on recognizing, measuring and disclosing the impairment of long-lived assets. The guidance replaces the write-down provisions in section 3061 of the CICA Handbook, *Property, plant and equipment.*

The determination of when to recognize an impairment loss for a long-lived asset to be held and used is made when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposition. When impairment is indicated, the amount of the impairment loss is determined as the excess of the carrying value of the amount over its fair value based on estimated discounted cash flows from use or disposition.

Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

NOTE 3 – INVESTEMENT IN TITAN URANIUM INC.

In December 2006, the Company sold a 90% interest in its uranium properties, consisting of 68 claims and 4 permits totalling 966,969 acres located in the Athabasca Basin, Saskatchewan, Canada, and all related exploration data to Titan Uranium Inc. ("Titan"), a public company traded on the TSX-V, under the following terms:

1. Titan issued the Company 17,500,000 fully paid and assessable common shares in the capital of Titan (representing a 36.47% of Titan's issued and outstanding shares at closing). The Company is restricted from transferring beneficial ownership of Titan shares until the first anniversary of the date of closing, at which time up to 20% of the original number may be traded in any twelve month period, and any trades in excess of this annual limit will be subject to prior approval of the Board of Directors of Titan;

2. Titan issued the Company 3,000,000 transferable common share purchase warrants, entitling the holder to acquire up to 3,000,000 common shares in the capital of Titan at an exercise price of $2.00 per common share for a period of 24 months, subject to a forced exercise provision whereby Titan can call the automatic exercise of the warrants should Titan's common shares trade on the TSX-V at a price of $4.00 or more for 20 consecutive trading days. 50% of these warrants were vested on the date of closing and the remaining 50% will vest twelve months after closing.

3. The Company retained a 1% Net Smelter Return on all properties;

4. The Company retained a 10% working interest in each claim, carried by Titan to completed bankable feasibility study after which the Company may elect to participate as to its 10% interest or convert to an additional 1% Net Smelter Return.

The estimated fair market value of Titan's shares and warrants at the date of acquisition were $31,650,000 and $4,800,000 respectively. The investment in Titan has been accounted for using the equity method of accounting and includes related legal fees and other costs of acquisition of $107,983. The Company's share of losses in Titan for the period ended December 31, 2006 was $19,031. The Company owned approximately 33% of Titan as at April 2, 2007.

NOTE 4 –EQUIPMENT

	2006			2005		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Furniture, fixtures and equipment	$ 96,066	$ 24,872	$ 71,194	$ 84,806	$ 8,480	$ 76,326
Computer equipment	53,338	18,596	34,742	41,550	6,233	35,317
Software	2,033	1,016	1,017	-	-	-
	$ 151,437	$ 44,484	$ 106,953	$ 126,356	$ 14,713	$ 111,643

NOTE 5 - RESOURCE PROPERTIES

Uranium Properties

In 2005 and 2006, the Company acquired interests in and staked uranium exploration properties in the Athabasca Basin region of Saskatchewan, Canada and commenced exploration on certain properties. In December 2006 the Company sold a 90% interest in these properties to Titan as disclosed in Note 3. The Company realized a gain on disposition of $30,177,082.

	December 31, 2004	Acquisition Costs	Exploration & Development Cost	December 31, 2005	Exploration & Development Costs	Disposal (Note 3)	December 31, 2006
Bozo	$ -	$ 1,604	$ 1,694	$ 3,298	$ 9,381	$ (11,411)	$ 1,268
Fleming Island	-	33,369	314,513	263,605	105,219	(331,942)	36,882
Gartner Lake	-	51,754	125,876	208,141	23,362	(208,353)	23,150
Hoppy North	-	20,035	2,045	22,080	33,885	(50,369)	5,596
Hoppy South	-	13,235	2,139	15,374	23,405	(34,901)	3,878
Maybelle River	-	35,291	144,406	178,372	18,739	(177,400)	19,711
Meanwell Lake	-	34,753	63,729	153,683	539,460	(623,829)	69,314
R-Seven	-	120,786	287,868	351,883	1,730,127	(1,873,809)	208,201
Sand Hill Lake	-	184,247	269,934	505,568	1,099,548	(1,444,604)	160,512
Sheila Project	-	7,903	2,045	9,948	18,981	(26,036)	2,893
Thornburn Lake	-	29,178	2,369	31,547	28,586	(54,120)	6,013
Umpherville Lake	-	11,402	2,045	13,447	17,632	(27,971)	3,108
Umpherville West	-	3,343	1,695	5,038	9,467	(13,054)	1,451
Virgin Trend North	-	123,087	255,826	342,978	1,109,288	(1,307,039)	145,227
Virgin Trend South	-	19,739	31,229	92,177	5,691	(88,081)	9,787
Total Uranium Properties	$ -	$ 689,726	$ 1,507,413	$ 2,197,139	$4,772,771	$ (6,272,919)	$ 696,991

Oil & Gas Properties

	December 31, 2005	Acquisition Costs	Exploration & Development	Write-down	December 31, 2006
Retamco Project	$ -	$25,182,532	$ -	$ -	$ 25,182,532
Lavaca Prospect	163,622	-	56,526	(220,148)	-
Tinsley Prospect	1,064,391	-	1,311,536	(2,375,926)	1
Golden Prairie Prospect	1	-	-	-	1
Turtle Bayou, Louisiana	1	-	-	-	1
	$1,228,015	$25,182,532	$ 1,368,062	$(2,596,074)	$ 25,182,535

	December 31, 2004	Acquisition Costs	Exploration & Development	December 31, 2005
Lavaca Prospect	$ -	$ 50,150	$ 113,472	$ 163,622
Tinsley Prospect	-	295,459	768,932	1,064,391
Golden Prairie Prospect	1	-	-	1
Turtle Bayou, Louisiana	1	-	-	1
	$ 2	$ 345,609	$ 882,404	$ 1,228,015

NOTE 5 - RESOURCE PROPERTIES (con't)

Retamco Project

In July 2006, the Company concluded the purchase of interests in 267 oil and gas leases covering 254,068 net acres in the Piceance and Uinta Basins in the States of Colorado and Utah from Retamco Operating Co. ("Retamco"), a private Texas corporation. The cost to the Company was $25,182,532 and included cash of $5,511,000 (US$5,000,000), 5,500,000 common shares valued at $12,088,991 (US$10,726,700), a promissory note with face value of $5,643,000 (US$5,000,000) and the issuance of a $1,577,609 (US$1,397,846) two-year 8% convertible debenture. Additional costs of $361,932 relating to the acquisition have also been capitalized to the project. See Notes 6 and 8.

The project consists of two project types. The "Natural Gas Resource" project covers 188,422 net acres containing natural gas assets; the second project is the "Overthrust Oil" project covering 65,646 net acres in the northern Piceance/Uinta Basins.

The Company owns a 25% net working interest in the Natural Gas Resource project and a 12.5% net working interest in the Overthrust Oil project. Leasehold acreage NRI is 80%. The Company will pay an unpromoted proportionate share of all exploration expenses including seismic, drilling, completion, equipping or abandonment.

The Company received 183,836 common shares of Brownstone Ventures Inc. ("Brownstone", a working interest partner in the Retamco Project) with a fair value of $306,271 as a finder's fee for assisting Brownstone in its purchase of its 10% interest in the Natural Gas Resource and Overthrust Oil projects.. As at December 31, 2006, the market value of Brownstone shares was $404,439.

Other Projects

In 2006, the Company was advised by the operator of the Tinsley and Lavaca Prospect that the wells are not economic. As a result, the Company recorded an impairment provision of $2,596,074. The Company currently holds interests in these oil and gas properties and carries three of these properties at $1 each, as it has not yet determined if these three properties contain any economical resources.

In October 2006, the Company entered into a Participation Agreement allowing it to participate in the drilling of a natural gas well in an area known as the Noel Area, in N.E. British Columbia, Canada. The Company then assigned 25% of its interest in the Noel Area to a company controlled by the CEO of the Company. After this farm-out agreement, the Company will pay 15% of the costs to earn a 9.375% working interest in 2220 acres with an option to drill additional wells earning 2220 acres to a maximum of 10,725 acres. Drilling commenced in March 2007 and the well is expected to reach total depth around the end of April 2007. The Company's share of the estimated cost for drilling the first test well is $700,000.

NOTE 6 – PROMISSORY NOTE AND CONVERTIBLE DEBENTURES

On July 14, 2006, a promissory note with face value $5,643,000 (US$5,000,000) and convertible debenture with a face value of $1,577,609 (US$1,397,846) were issued to Retamco for the acquisition of the Retamco project. Refer to Note 5.

The US$5,000,000 promissory note is secured, bore no interest to January 1, 2007 and thereafter it bears interest at 4.4% per annum. This promissory note matures as follows:

January 2, 2007	US$	2,000,000	(paid subsequently)
March 31, 2007		1,500,000	(paid subsequently)
June 30, 2007		1,500,000	
	US$	5,000,000	

The Company estimated that the fair value of the promissory note at the date of issue was $4,877,058 and has capitalized the accreted interest to December 31, 2006 as resource property costs. The fair value of the promissory note approximates its carrying value at December 31, 2006.

The convertible debenture matures on July 15, 2008, is unsecured, bears an 8% coupon, payable quarterly and is convertible at $1.52 (US$1.35) per unit. Each unit consists of one common share and one warrant, exercisable at $1.69 (US$1.50) per share, expiring on July 15, 2008.

NOTE 6 – PROMISSORY NOTE AND CONVERTIBLE DEBENTURES (continued)

As at December 31, 2006, the face value of the debenture was US$1,397,846. The Company recognized the value of the embedded conversion feature of $331,706 (US$284,629) as additional contributed surplus. The Company will record further interest expense over the term of the convertible debentures of $331,706 (US$284,629) resulting from the difference between the stated value and the estimated fair value at the date of issuance. The carrying value of the convertible debenture will be accreted to the face value of US$1,397,846 to maturity. At December 31, 2006, accrued interest of $60,395 (US$51,824) is included in accrued liabilities.

NOTE 7 - RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) During 2006, the Company incurred a total of $136,670 (2005 - $100,000) in consulting fees and accrued $17,282 (2005 – nil) of interest at 8% per annum related to US$400,000 of convertible debentures as discussed in Note 6, and a $63,000 bonus payment to a private company ("HEC") controlled by the CEO. In October 2006, the Company assigned 25% of its interest in the Noel Area, described in Note 5, to HEC, which agreed to assume 25% of the related obligations. In November 2006, the Company had received $234,251 from HEC, being the estimated 25% share of the exploration expenditures for the Noel Area.
b) During 2006, the Company incurred a total of $179,000 (2005 - $122,356) in consulting fees and accrued $8,641 (2005 – nil) of interest at 8% per annum related to US$400,000 of convertible debentures as discussed in Note 6, and a $13,000 bonus payment to the President of a private company controlled by the President of the Company.
c) During 2006, the Company incurred $107,640 (2005 - $64,480) in consulting fees to a private company controlled by the CFO The Company also accrued $17,282 (2005 – nil) of interest at 8% per annum related to US$400,000 of convertible debentures as discussed in Note 6 to an individual related to the CFO.
d) During 2006, the Company's 90% owned joint venture subsidiary ("DEAL") incurred $105,625 of consulting fee to a company controlled by a director of DEAL.

These transactions are in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties.

NOTE 8 - SHARE CAPITAL

Authorized: Unlimited common shares
Unlimited first preferred shares, issuable in series
Unlimited second preferred shares, issuable in series

	Shares	Value
Common shares issued:		
Balance at December 31, 2004	15,795,962	$ 2,726,819
Common shares issued during 2005:		
- for cash by private placements	21,030,214	14,696,916
- for services	11,500	9,200
- for cash on exercise of agent's options	217,783	152,448
- for cash on exercise of warrants	1,806,365	883,160
- for cash on exercise of stock options	154,965	52,286
- contributed surplus reallocated on exercise of stock options	-	35,480
- renounced flow through share expenditures	-	(366,135)
Balance at December 31, 2005	39,016,789	18,190,174
Common shares issued during 2006:		
- for acquisition of Retamco Project (Note 5)	5,500,000	12,088,991
- for cash by private placements	8,071,333	11,329,002
- for cash on exercise of agent's options	499,909	349,937
- for cash on exercise of warrants	7,051,285	7,076,746
- for cash on exercise of stock options	760,407	433,321
- contributed surplus reallocated on exercise of stock options	-	257,520
- renounced flow through share expenditures	-	(1,054,308)
Balance at December 31, 2006	60,899,723	$ 48,671,383

NOTE 8 - SHARE CAPITAL (con't)

During 2006, the Company completed the following:
In March 2006, the Company completed a private placement and issued 5,300,000 flow-through shares ("FTS") at $1.50 per share. Gross proceeds raised of $7,950,000 are committed to be spent on Canadian Exploration Expenditures ("CEE"), of which $2,600,000 had been spent to December 31, 2006. Accordingly, as at December 31, 2006, approximately $5,350,000 was not available for general administrative purposes. In connection with this private placement, the Company paid finders' fees of $477,000 and issued 424,000 warrants, exercisable at $1.65 per share before September 2, 2007. The grant date fair values of the agents' warrants, estimated to be $63,600 have been included in share capital on a net basis and accordingly have not been recorded as a separate component of shareholders' equity.

In March 2006, the Company completed a private placement and issued 683,333 Units at $1.50 per Unit. Each Unit consists of one common share and half of one share purchase warrant, exercisable at $1.65 per share before December 31, 2007. Gross proceeds raised were $1,025,000. The Company paid finders' fees of $45,000 and issued 41,000 warrants, exercisable at $1.65 per share before December 31, 2007. The grant date fair values of the warrants and agents' warrants, estimated to be $51,250 and $6,150 respectively, have been included in share capital on a net basis and accordingly have not been recorded as a separate component of shareholders' equity.

In April 2006, the Company completed a private placement and issued 2,088,000 Units at $1.50 per Unit. Each Unit consists of one common share and half of one share purchase warrant, exercisable at $1.65 per share before December 31, 2007. Gross proceed raised was $3,132,000. The Company paid finders' fees of $138,150 and issued 92,100 warrants, exercisable at $1.65 per share before December 31, 2007. The grant date fair values of the warrants and agents' warrants, estimated to be $156,600 and $13,815 respectively, have been included in share capital on a net basis and accordingly have not been recorded as a separate component of shareholders' equity.

In July 2006, the Company issued 5,500,000 shares for the acquisition of Retamco Project. See Note 5.

During 2005, the Company completed the following:
In January 2005, the Company completed two private placements and issued a total of 1,650,000 common shares at $0.50 per share for gross proceeds of $825,000. In connection with these private placements the Company paid finders' fees of $37,125, paid other costs of $5,372 and issued 250,000 warrants to finders with each warrant being exercisable into a common share at a price of $0.65 per share to September 30, 2005. The grant date fair value of these warrants has been included in share capital on a net basis and accordingly has not been recorded as a separate component of shareholders' equity.

In March 2005, the Company completed a private placement and issued a total of 8,076,923 units at $0.65 per unit for gross proceeds of $5,250,000. Each unit consists of one common share and one half share purchase warrant with each whole share purchase warrant entitling the holder to purchase an additional common share of the Company at a price of $0.80 per share to March 17, 2007. In connection with these private placements the Company paid finders' fees of $262,786, paid other costs of $61,036, issued 185,791 additional units as finders' fees and issued 717,692 agent's options. The agent's options are exercisable into units at a price of $0.70 per unit with each unit consisting of one common share and one half share purchase warrant with each whole share purchase warrant entitling the holder to purchase an additional common share of the Company at a price of $0.85 per share to March 17, 2007. The grant date fair values of the finders' fee units, agent's options and the warrants have been included in share capital on a net basis and accordingly have not been recorded as a separate component of shareholders' equity.

In September 2005, the Company completed a private placement and issued a total of 4,500,000 units at US$0.55 per unit for gross proceeds of CDN$2,914,808. Each unit consists of one common share and one half share purchase warrant with each whole share purchase warrant entitling the holder to purchase an additional common share of the Company at a price of $0.80 per share to March 17, 2007. In connection with this private placement the Company paid finders' fees of $109,058, paid other costs of $19,582 and issued 306,736 warrants to finders with each warrant being exercisable into a common share at a price of $0.80 per share to March 17, 2007. The grant date fair value of these warrants has been included in share capital on a net basis and accordingly has not been recorded as a separate component of shareholders' equity.

NOTE 8 - SHARE CAPITAL (con't)

In December 2005, the Company completed a private placement and issued a total of 4,317,500 units at $0.95 per unit and 2,300,000 flow through common shares at $1.05 per share for total gross proceeds of $6,516,625. Each unit consists of one common share and one half share purchase warrant with each whole share purchase warrant entitling the holder to purchase an additional common share of the Company at a price of $1.10 per share to December 14, 2007. In connection with this private placement the Company paid finders' fees of $275,144, paid other costs of $39,414 and issued 503,701 warrants to finders with each warrant being exercisable into a common share at a price of $1.10 per share to December 14, 2007. The grant date fair value of these warrants has been included in share capital on a net basis and accordingly has not been recorded as a separate component of shareholders' equity. Proceeds from the flow through common shares totalling $2,415,000 are committed to be spent on CEE of which none had been spent to December 31, 2005. Accordingly, as at December 31, 2005, approximately $2,415,000 of cash was not available for general administrative purposes. In accordance with the accounting recommendations relating to accounting for flow-through shares, upon renouncing the expenditures, the Company will reduce the flow-through share proceeds and recognize a future tax liability by an amount approximating the tax effect of the timing difference resulting from renouncing exploration expenditures using currently enacted tax rates. During 2006 the Company recorded a future income tax recovery of $1,054,308 relating to the resulting future tax liability offset through the realization of previously unrecorded future tax assets due to their uncertainty of realization. Refer to Note 11.

NOTE 9 – STOCK OPTIONS AND WARRANTS

During the year ended December 31, 2006 the Company granted a total of 2,010,000 (2005 – 2,606,192) options to its insiders, consultants and advisors. All options vest on a quarterly basis over periods ranging from eighteen months to three years. The vested options can be exercised for periods ending between July 31, 2007 and November 1, 2009 to purchase common shares of the Company at prices ranging from $0.275 to $2.10 per share. In accordance with accounting recommendations effective January 1, 2003, the Company expenses the fair value of all stock options granted over their respective vesting periods. The fair value of the options granted during 2006 was determined to be $3,045,400 (2005 - $923,827). The Company determined the fair value of stock options granted during the year using the Black-Scholes option pricing model using the following weighted average assumptions: expected option life of 2.86 years (2005 – 2.83 years), risk-free interest rate of 3.5% (2005 – 3.5%) and expected volatility of 96% (2005 – 96%). During the current year the Company recognized a total of $1,295,127 (2005 - $308,434) of stock based compensation relating to the vesting of options.

The following table summarizes information about stock option transactions:

	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, December 31, 2004	950,000	$ 0.275	4.83 years
Options granted	2,606,192	0.603	
Options exercised	(154,965)	0.337	
Options cancelled and expired	(90,035)	0.415	
Balance, December 31, 2005	3,311,192	0.527	2.71 years
Options granted	2,010,000	1.847	
Options exercised	(760,407)	0.570	
Options cancelled and expired	-	-	
Balance, December 31, 2006	4,560,785	$ 1.14	1.93 years

NOTE 9 - STOCK OPTIONS AND WARRANTS (con't)

Details of options exercisable as at December 31, 2006 are as follows:

Number	Exercise Price	Remaining Contractual Life
402,529	$ 0.275	1.83 years
389,307	0.550	1.24 years
735,000	0.600	1.65 years
33,334	0.650	0.25 years
22,332	0.660	1.29 years
2,250	0.900	0.58 years
66,667	1.250	0.09 years
100,000	1.400	2.25 years
2,083	1.750	2.84 years
50,000	1.800	0.83 years
25,000	1.950	1.92 years
331,750	2.100	2.33 years
2,160,252		

During the year ended December 31, 2006, the Company issued 554,700 warrants in connection with a private placement financing as described in Note 8. These warrants are exercisable into units at a price of $1.65 per unit until December 31, 2007. Each unit consists of one common share and one half of a share purchase warrant. Each whole share purchase warrant is exercisable into a common share at a price of $1.65 per share until December 31, 2007. As at December 31, 2006, 179,637 of these agent's warrants remain unexercised.

The following table summarizes information about warrants:

	Outstanding Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, December 31, 2004	1,500,000	$ 0.45	1.00 years
Warrants issued	9,709,436	0.88	
Warrants exercised	(1,806,365)	0.49	
Warrants expired	-	-	
Balance, December 31, 2005	9,403,071	0.89	1.42 years
Warrants issued	2,192,720	1.56	
Warrants exercised	(7,051,285)	1.00	
Warrants expired	-	-	
Balance, December 31, 2006	4,544,506	$ 1.03	0.41 years

NOTE 9 - STOCK OPTIONS AND WARRANTS (con't)

Details of warrants outstanding as at December 31, 2006 are as follows:

Number	Exercise Price	Remaining Contractual Life
3,319,868	$ 0.80	0.21 years
12,500	0.85	0.21 years
1,212,138	1.65	0.89 years
4,544,506		

NOTE 10 – CONTRIBUTED SURPLUS

Details of changes in the Company's contributed surplus balance are as follows:

Balance, December 31, 2004	$ 6,131
Stock compensation on vesting of options	308,434
Allocated to share capital on exercise of options	(35,480)
Balance, December 31, 2005	279,085
Stock compensation on vesting of options	1,295,127
Value of conversion feature on convertible debentures	331,706
Allocated to share capital on exercise of options	(257,520)
Balance, December 31, 2006	$ 1,648,398

NOTE 11 – FUTURE INCOME TAXES

The actual income tax provisions differ from the expected amounts calculated by applying the Canadian combined federal and provincial corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

	2006	2005
Income (loss) before income taxes	$ 24,341,652	$ (1,978,054)
Corporate tax rate	34.12%	34.90%
Expected tax expense (recovery)	8,305,371	(689,747)
Increase (decrease) resulting from:		
Change in corporate tax rate	53,546	64,516
Disposal of uranium properties utilizing Section 85 rollover	(5,601,176)	-
Expiry of non-capital losses carried forward	-	98,074
Non-deductible stock-based compensation	441,638	107,551
Change in future tax asset valuation allowance	(3,490,610)	328,514
Share issue costs and other permanent differences	(214,975)	-
Renounced exploration expenditures and other adjustments	959,873	(275,043)
Future income tax provision (recovery)	$ 453,926	$ (366,135)

NOTE 11 – FUTURE INCOME TAXES (con't)

The Company's tax-effected future income tax assets and liabilities are made up as follows:

	2006	2005
Future income tax assets		
Non-capital losses available	$ 1,077,545	$ 1,370,506
Capital losses available	1,067,642	1,091,110
Resource pools in excess of net book value	1,540,396	762,534
Share issue costs and other	407,359	266,460
	4,092,942	3,490,610
Future income tax liabilities		
Long term investments	(5,601,176)	-
	(1,508,234)	3,490,610
Valuation allowance		
Valuation allowance, opening	(3,490,610)	(3,162,096)
Reversal (increase) of valuation allowance	3,490,610	(328,514)
Valuation allowance, ending	-	(3,490,610)
Net future income tax assets (liabilities)	$ (1,508,234)	$ -

The Company has approximately $2,884,000 (2005 - $3,930,000) of non-capital losses which can be applied to reduce future taxable income, expiring as follows:

Year of Expiry	Amount
2008	$ 420,000
2009	243,000
2010	91,000
2014	284,000
2015	1,846,000
	$ 2,884,000

In addition, the Company has Canadian and Foreign exploration and development expenditures totalling approximately $5,211,000, unamortized share issue costs of approximately $1,152,000 and capital loss carryforwards of approximately $6,258,000 which may be available to reduce future taxable income. Both the exploration and development expenditures and the capital losses can be carried forward indefinitely.

NOTE 12 – SUPPLEMENTARY CASH FLOW INFORMATION

	2006 $	2005 $	2004 $
Supplemental information relating to non-cash financing activities			
Issuance of common shares for services	-	9,200	-
Bonus shares issued for bridge loan financing fee	-	-	50,000
Shares issued for Retamco Project	12,088,991	-	-
Promissory note issued for Retamco Project	5,643,000	-	-
Convertible debenture issued for Retamco Project	1,577,609	-	-
Value of shares and warrants received as proceeds on disposition of resource properties	36,450,000	-	-
Interest paid during the year	107,031	1,589	2,082
Taxes paid during the year	24,236	-	-

NOTE 13 – SUBSEQUENT EVENTS

Subsequent to the year-end, the Company granted a total of 1,950,000 options to consultants, and executive officers. These options have an average exercise price $2.47per share, and average expiry date of four years.

Subsequent to the year-end, 3,336,453 warrants and 129,117 options were exercised for total proceeds of $2,741,582.

The Company incurred approximately $3,000,000 to $3,500,000 in acquisition and exploration expenditures to acquire interests approximating an average 25% in roughly 45,000 acres of oil and gas exploration properties in the Peace River Arch area near the border of BC and Alberta.

NOTE 14 – COMMITMENTS

Effective May 1, 2005, the Company entered in to a five year lease on its office premises. Under the terms of the lease the Company is required to make minimum annual payment. The Company is committed under operating lease agreement for the premises to future minimum payments as follows:

2007	$ 91,520
2008	95,334
2009	101,053
2010	34,320
	$ 322,227

NOTE 15 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP")

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). A description of US GAAP and practices prescribed by the US Securities and Exchange Commission ("SEC") that result in material measurement differences from Canadian GAAP are as follows:

(a) Interest in unproven mineral properties

Under US GAAP, pursuant to EITF 04-2, the Company classified its mineral rights as tangible assets and accordingly acquisition costs are capitalized provided certain criteria are met. US GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company is to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. However, SEC staff has indicated that their interpretation of US GAAP requires mineral exploration costs to be expensed as incurred until commercially mineable deposits are determined to exist within a particular property. Accordingly, for all periods presented, the Company has expensed all mineral exploration costs for US GAAP purposes. In addition, under Canadian GAAP, cash flows relating to resource property costs are reported as investing activities. For US GAAP, these costs would be characterized as operating activities.

(b) Stock-based compensation

The Financial Accounting Standards Board ("FASB") in the US issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The statement encourages entities to adopt a fair value methodology of accounting for employee stock-based compensation.

Under US GAAP stock options granted to non-employees for services rendered to the Company are required to be accounted for as compensation cost and charged to operations as the services are performed and the options are earned. The compensation cost is to be measured based on the fair value of the stock options granted. This method is similar to the Canadian standard adopted as of January 1, 2003. The stock-based compensation expense in respect of stock options granted to non-employees, under US GAAP, based upon the fair value of the options granted, determined using the Black Scholes option pricing model, would be $nil cumulatively from the date of adoption of SFAS 123 to December 31, 2002.

In December 2004, the FASB issued SFAS No.123R (revised 2004), "Share-Based Payment." SFAS No. 123(R) provides investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Public entities will be required to apply SFAS No. 123(R) as of the first interim or annual reporting period that begins after June 15, 2005 or December 15, 2005 for small business issuers.

To December 31, 2006, the Company only granted stock options to consultants and did not grant any stock options to employees.

(c) Income taxes

Under US GAAP, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Under Canadian GAAP, the effect of a change in tax rates is recognized in the period of substantive enactment. The application of this difference under US GAAP does not result in a material difference between future income taxes as recorded under Canadian GAAP.

NOTE 15 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (con't)

(d) Flow-through shares

Under Canadian GAAP, future income tax liabilities resulting from the renunciation of qualified resource expenditures by the Company in connection with the issuance of flow-through common shares are recorded as a reduction of share capital at the time of renunciation. Under US GAAP, the cost of the renounced expenditures is recorded as a liability and reduction of share capital on issuance of the flow through shares. Under Canadian GAAP, the amount of this reduction is measured as the tax effected value of the renounced expenditures while under US GAAP, the amount of this reduction is measured by comparison of the flow-through common share price versus the fair value of the Company's ordinary common shares.

(e) Reporting comprehensive income

Statement of Financial Accounting Standards No. 130 ("SFAS 130") *"Reporting Comprehensive Income",* establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income equals net income (loss) for the year as adjusted for all other non-owner changes in shareholders' equity. SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement. For the years ended December 31, 2006, 2005 and 2004 comprehensive loss equals the loss for the year.

(f) Exploration stage company

Pursuant to US GAAP, the Company would be considered an exploration stage company as the Company is devoting its efforts to establishing commercially viable resource properties. However, the identification of the Company as such for accounting purposes does not impact the measurement principles applied to these consolidated financial statements.

(g) Statements of cash flows

For Canadian GAAP, all cash flows relating to mineral property costs are reported as investing activities. For US GAAP, mineral property acquisition costs would be characterized as investing activities and mineral property exploration costs as operating activities.

The Company has included a subtotal in cash flows from operating activities. Under US GAAP, no such subtotal would be disclosed.

(h) Recent accounting pronouncements

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140*, to simplify and make more consistent the accounting for certain financial instruments. SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to permit fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. SFAS No. 155 amends SFAS No. 140, *Accounting for the Impairment or Disposal of Long-Lived Assets*, to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with earlier application allowed. This standard is not expected to have a significant effect on the Company's future reported financial position or results of operations nor will it result in a difference between the Company's reporting under Canadian GAAP versus US GAAP.

NOTE 15 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (con't)

In March 2006, the FASB issued SFAS No. 156, *"Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"*. This statement requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits for subsequent measurement using either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of Statement No. 140. The subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value eliminates the necessity for entities that manage the risks inherent in servicing assets and servicing liabilities with derivatives to qualify for hedge accounting treatment and eliminates the characterization of declines in fair value as impairments or direct write-downs. SFAS No. 156 is effective for an entity's first fiscal year beginning after September 15, 2006. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statements No. 109"*. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a two-step method of first evaluating whether a tax position has met a more likely than not recognition threshold and second, measuring that tax position to determine the amount of benefit to be recognized in the financial statements. FIN 48 provides guidance on the presentation of such positions within a classified statement of financial position as well as on derecognition, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"*. The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, *"Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements."* SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative a qualitative factor. SAB No. 108 is effective for period ending after November 15, 2006. The adoption of this statement had no material effect on the Company's reported financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)"*. This statement requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The provisions of SFAS No. 158 are effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006. The adoption of this statement had no material effect on the Company's reported financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This Statement permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its financial position and results of operations.

NOTE 15 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (con't)

(i) Reconciliation:

The effect of the differences between Canadian GAAP and US GAAP (including practices prescribed by the SEC) on the balance sheets, statements of operations and cash flows are summarized as follows:

(i) Assets

	December 31, 2006	December 31, 2005
Total assets, under Canadian GAAP	$ 80,677,728	$ 16,016,353
Exploration costs - unproven resource properties	(628,018)	(1,507,413)
Total assets, under US GAAP	$ 80,049,710	$ 14,508,940

(ii) Liabilities

	December 31, 2006	December 31, 2005
Total liabilities, under Canadian GAAP	$ 9,235,349	$ 312,222
Add: flow through issue cost liability	-	115,000
Total liabilities, under US GAAP	$ 9,235,349	$ 427,222

(iii) Share Capital

	December 31, 2006	December 31, 2005
Total share capital, under Canadian GAAP	$ 48,671,383	$ 18,190,174
Add: flow through issue cost under Canadian GAAP	1,054,308	366,135
Less: flow through issue cost under US GAAP	-	(115,000)
Total share capital, under US GAAP	$ 49,725,691	$ 18,441,309

(iv) Retained Earnings (Deficit)

	December 31, 2006	December 31, 2005
Retained Earnings (Deficit), under Canadian GAAP	$ 21,122,598	$ (2,765,128)
Add: gain on disposal of uranium properties	5,652,166	-
Less: exploration costs - unproven resource properties	(4,772,771)	(1,507,413)
Less: flow through share future tax recovery	(1,054,308)	(366,135)
Retained Earnings (Deficit) under US GAAP	$ 20,947,685	$ (4,638,676)

NOTE 15 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (con't)

(i) Reconciliation:

(v) Net income (loss) for the year

	For the year ended December 31		
	2006	2005	2004
Net income (loss) for the year, under Canadian GAAP	$ 23,887,726	$ (1,611,919)	$ (392,099)
Add: gain on disposal of uranium properties	5,652,166	-	-
Less: exploration cost - unproven resource properties	(4,772,771)	(1,507,413)	-
Less: flow through share future tax recovery	(1,054,308)	(366,135)	-
Net income (loss) for the year, under US GAAP	$ 23,712,813	$ (3,485,467)	$ (392,099)

(vi) Cash used in operating activities

	For the year ended December 31		
	2006	2005	2004
Cash used in operating activities, under Canadian GAAP	$ (1,769,373)	$ (1,438,826)	$ (231,807)
Less: exploration costs - unproven resource property expenditure	(4,772,771)	(1,507,413)	(102,017)
Cash used in operating activities, under US GAAP	$ (6,542,144)	$ (2,946,239)	$ (333,824)

(vii) Cash used in investing activities

	For the year ended December 31		
	2006	2005	2004
Cash used in investing activities, under Canadian GAAP	$ (12,146,784)	$ (3,551,508)	$ (102,017)
Add:	4,772,771	1,507,413	102,017
Cash used in investing activities, under US GAAP	$ (7,374,013)	$ (2,044,095)	$ -